



STATISTICS IN FOCUS

Economy and finance



1997 □ 28

ISSN 1024-4298

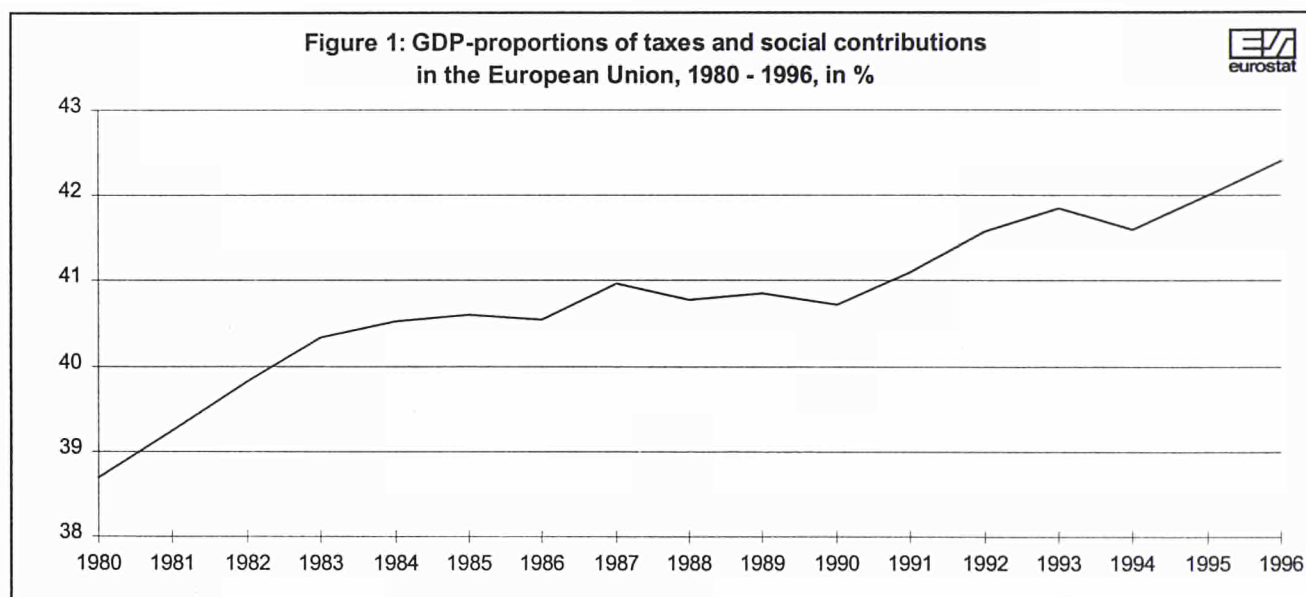
TAXES AND SOCIAL CONTRIBUTIONS IN THE EUROPEAN UNION - First results for 1996 -

As in previous years, this issue of 'Statistics in Focus' presents provisional figures on the 1996-level of taxes and social contributions in the Member States of the European Union (EU). The Eurostat database 'New Cronos'¹ contains considerably more detailed data up to 1995.

Methodological notes on the data, which was collected in accordance with the European System of Integrated Economic Accounts (ESA), are to be found in box 2 on page 6 of this report.

New peak in the tax and social contribution ratio in 1996

The EU average ratio of taxes and social contributions in per cent of gross domestic product (GDP) increased in 1996 by 0.4 percentage points and reached 42.4% of GDP. This value is higher than the previous peaks of 1993 and 1995 which amounted to around 42% of GDP. Taking a longer-term view reveals that during the years 1980-1996, the ratio rose by almost four percentage points from 38.7 to 42.4% of GDP (figures 1 and 2, table 1).



¹ Detailed information on the EU-database 'New Cronos' and on the addresses of other data shops is available from Eurostat Data Shop, 2 rue J. Engling, L-1466 Luxembourg. Tel. (+352)4335.2251, Fax (+352)4335.2221.

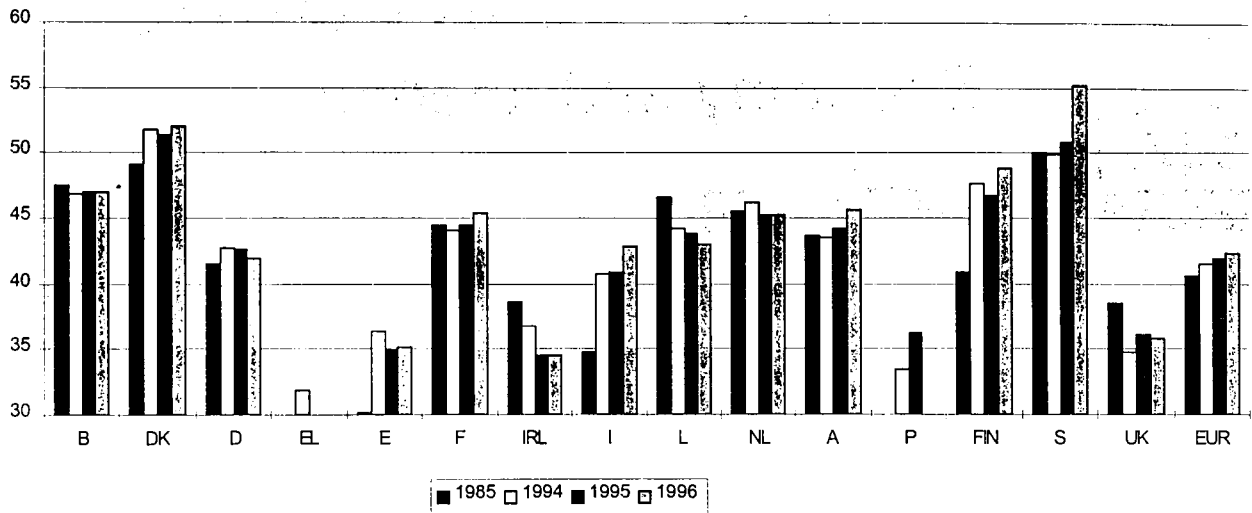
Manuscript completed on = 15.08.1997

For further information please contact: M.De March / T.Peters
Eurostat, L-2920 Luxembourg, tel. 4301-33207/32068 Fax: 4301-33879

Price (excl. VAT) in Luxembourg: Subscription 'Statistics in focus' of all themes: ECU 310
Subscription 'Statistics in focus' of Theme 2 'Economy and Finance': ECU 85
Single copy: ECU 6

Catalogue number: CA-NJ-97-028-EN-C

Figure 2: GDP-proportions of taxes and social contributions in the Member States of the EU, 1985, 1994 - 1996, in %



During this period, stable or declining ratios were observed for four years, while the taxes and social contributions grew faster than GDP in the other 12 years.

A comparison of the changes in growth rates of the EU-GDP and the government revenue of taxes and social contributions is detailed in figure 3. It highlights rather apparent similarities between the business cycle and receipts from taxes and social contributions.

Similar increase in taxes ...

The 1996-value of the tax ratio rose by 0.2 percentage points, reaching 27.2%. Thus it remained just below the EU maximum value of 27.3% which occurred in 1989, but still represents the highest value since then.

This 1989 peak marked the end of a development throughout the eighties, which showed an almost continuous increase in the tax ratio by nearly two percentage points. In the first half of the nineties, it fluctuated around a margin of 0.5 percentage points (figure 4, table 1).

Table 1: GDP-proportions of taxes and social contributions in the European Union, 1980 - 1996, in %

Year	Taxes	Social contributions	Total
1980	25.5	13.2	38.7
1981	26.0	13.3	39.2
1982	26.2	13.6	39.8
1983	26.5	13.9	40.3
1984	26.8	13.7	40.5
1985	26.8	13.7	40.6
1986	26.7	13.8	40.5
1987	27.0	13.9	41.0
1988	27.0	13.7	40.8
1989	27.3	13.6	40.9
1990	27.0	13.7	40.7
1991	27.0	14.1	41.1
1992	27.1	14.5	41.6
1993	27.0	14.9	41.9
1994	26.8	14.8	41.6
1995	27.0	15.0	42.0
1996	27.2	15.3	42.4

Totals may differ due to rounding.

Figure 3: Changes in growth rate for GDP and taxes and social contributions, in percentage points



Table 3: Structure of tax receipts in the Member States of the European Union, in % of GDP

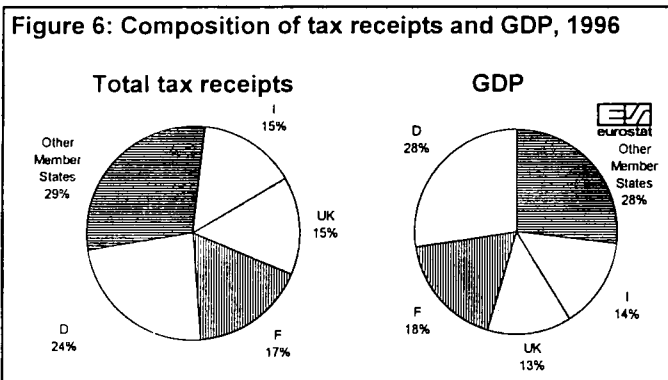
eurostat	Current Taxes on income and wealth				Taxes linked to production and imports excl. VAT				VAT on products				Total			
	1985	1994	1995	1996	1985	1994	1995	1996	1985	1994	1995	1996	1985	1994	1995	1996
B	19.6	17.8	18.3	18.2	4.2	5.2	5.0	5.4	6.8	6.5	6.4	6.5	32.0	31.1	31.2	31.6
DK	28.6	31.7	31.4	31.6	8.2	7.9	7.9	8.1	9.2	9.5	9.4	9.7	47.2	50.1	49.7	50.4
D	12.6	11.1	11.3	10.4	5.8	6.0	5.9	5.8	5.9	6.4	6.1	6.1	25.3	24.5	24.3	23.3
EL	5.4	6.8	:	:	14.2	7.9	:	:	0.0	6.2	:	:	20.6	22.1	:	:
E	8.5	11.5	11.4	11.5	9.5	5.1	4.9	4.8	0.0	5.1	5.1	5.2	18.2	22.7	22.4	22.4
F	9.1	9.4	9.5	10.0	6.9	7.4	7.4	7.6	8.1	6.7	6.8	7.2	25.2	24.9	25.2	26.0
IRL	14.3	15.5	14.0	14.6	9.6	7.7	7.4	7.3	7.3	6.6	6.5	6.5	32.6	31.2	29.3	29.7
I	13.1	15.1	14.9	15.3	4.2	6.6	6.6	6.8	4.8	5.1	5.2	5.1	22.8	27.7	27.8	28.1
L	18.3	15.4	15.2	14.7	9.9	10.8	10.5	10.3	5.0	5.2	5.4	5.9	34.5	32.5	32.2	31.7
NL	12.7	14.0	13.1	13.5	4.2	5.6	5.6	5.8	6.8	6.2	6.1	6.5	25.0	27.2	26.2	27.1
A	13.0	11.7	12.5	13.6	7.4	7.8	7.5	7.3	9.3	8.5	7.5	8.0	29.8	28.0	28.3	29.7
P	7.7	8.6	9.4	10.5	13.2	7.0	7.1	:	0.0	6.2	7.2	:	21.1	23.1	24.7	:
FIN	17.2	17.7	17.8	19.7	14.4	14.6	6.3	6.2	0.0	0.0	7.6	8.4	31.7	32.5	32.1	34.6
S	21.0	21.2	21.6	22.5	9.5	6.8	7.3	8.6	7.0	8.1	7.1	8.1	37.5	36.2	36.8	39.9
UK	15.5	13.7	14.6	14.6	9.7	7.2	7.6	7.5	5.3	6.6	6.5	6.6	31.7	28.4	29.7	29.6
EUR	13.1	12.8	13.0	13.1	7.1	6.7	6.5	6.6	5.7	6.3	6.3	6.4	26.8	26.8	27.0	27.2

EU-receipts (approximately 0.9 % of GDP) and capital taxes (approximately 0.3 % of GDP) do not appear in this table due to their relative insignificance.

Table 4: Social contributions in the Member States of the European Union, in % of GDP

eurostat	Employers				Employees				Others				Total			
	1985	1994	1995	1996	1985	1994	1995	1996	1985	1994	1995	1996	1985	1994	1995	1996
B	9.0	9.4	9.5	9.2	5.2	4.8	4.7	4.6	1.3	1.6	1.6	1.6	15.5	15.8	15.8	15.4
DK	0.9	0.3	0.3	0.3	1.0	1.3	1.3	1.3	0.1	0.0	0.1	0.1	1.9	1.7	1.6	1.7
D	7.5	8.1	8.1	8.2	6.4	7.1	7.1	7.2	2.4	3.0	3.1	3.4	16.3	18.2	18.3	18.7
E	8.5	9.3	8.7	9.0	2.0	2.3	2.1	2.2	1.5	2.0	1.7	1.7	12.0	13.6	12.6	12.8
F	12.5	11.8	11.9	11.9	5.2	5.8	5.8	5.9	1.6	1.5	1.5	1.6	19.3	19.1	19.3	19.5
IRL	3.6	3.1	3.0	2.9	2.4	2.2	2.0	1.7	0.0	0.3	0.2	0.2	6.0	5.5	5.2	4.9
I	8.6	8.7	8.6	10.2	2.3	2.8	2.8	2.9	1.1	1.6	1.7	1.7	12.0	13.0	13.1	14.8
L	6.0	5.5	5.4	5.3	4.4	4.5	4.6	4.5	1.7	1.7	1.6	1.6	12.2	11.7	11.7	11.3
NL	7.9	3.2	3.5	3.8	8.8	12.1	12.0	11.1	3.8	3.8	3.5	3.3	20.5	19.0	19.0	18.1
A	6.8	7.5	7.7	7.8	5.8	6.8	6.8	6.8	1.2	1.3	1.3	1.4	13.8	15.6	15.9	16.0
FIN	7.0	10.2	10.3	10.0	1.5	3.3	3.1	3.1	0.7	1.7	1.4	1.2	9.2	15.3	14.7	14.3
S	11.9	12.5	12.0	12.7	0.0	0.9	1.6	2.2	0.6	0.3	0.4	0.4	12.5	13.7	14.1	15.3
UK	3.4	3.5	3.5	3.4	3.2	2.6	2.7	2.6	0.2	0.2	0.2	0.2	6.8	6.3	6.4	6.3
EUR	8.0	8.1	8.1	8.3	4.3	5.1	5.1	5.1	1.4	1.8	1.9	1.9	13.8	14.9	15.0	15.3

Without Greece and Portugal.



In 1996, the four largest Member States accounted for approximately three quarters of the entire EU-tax revenue and the EU-GDP.

Different developments in the Member States ...

In 1996, seven of the thirteen Member States, for which data are already available, showed an increase in the tax and social contribution ratio in GDP (table 2). The strongest rise (+4.3 points) was registered for Sweden, whose tax and social contribution ratio became the highest in the EU. Below-average increases were registered in Spain (+0.2 points), whereas values for Belgium and Ireland remained stable.

Germany and Luxembourg recorded the largest decreases in the tax and social contribution ratio, falling by 0.6 and 0.8 percentage points respectively to

42% and 43% of GDP; the Netherlands and United Kingdom saw lower ratios by 0.1 points.

A comparison of the components of the tax and social contribution ratio shows a lower tax ratio in GDP in Germany, Luxembourg and the United Kingdom. The steepest increases were in Finland (+2.5 points) and Sweden (+3.1 points) (table 3).

A reduction in the share of social contributions in GDP was recorded in Belgium, Ireland, Luxembourg, the Netherlands, Finland and the United Kingdom (table 4). In the other seven EU countries providing 1996 data the social contribution ratio went up, Italy (+1.7 points) and Sweden (+1.2 points) showing the strongest increases.

... and considerable differences in level

As can be seen in tables 2 to 4 and in figures 7 and 9, in addition to differing evolutions, the level of taxes and social contributions also varies considerably. Two Member States (Denmark with 52% and Sweden with 55.2%) have taxes and social contributions of over 50% of GDP. Between 42% and 48% lie Belgium, Germany, France, Italy, Luxembourg, the Netherlands and Austria, while the other Member States, with the exception of Finland (48.8%), levy taxes and social contributions between 32% and 37% of GDP. An interpretation of these figures, however, should be performed with care (see box 1).

Table 2: Taxes and social contributions in the Member States of the European Union, in % of GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
B	44.4	44.9	46.5	46.4	47.4	47.5	46.9	47.3	45.9	44.4	44.7	44.8	45.0	45.7	46.8	47.0	47.0
DK	45.6	45.5	44.6	46.5	47.7	49.1	50.9	51.6	51.6	50.6	48.7	48.9	49.2	50.3	51.8	51.3	52.0
D	41.6	41.4	41.5	41.0	41.3	41.6	40.9	41.1	40.8	41.3	39.5	41.2	41.9	42.4	42.7	42.6	42.0
EL	:	:	:	:	:	:	:	:	:	28.5	:	29.4	30.3	30.8	31.8	:	:
E	25.8	26.8	26.7	28.7	29.1	30.2	31.1	33.2	33.5	35.4	35.4	35.7	37.5	36.7	36.4	35.0	35.2
F	41.7	41.9	42.8	43.6	44.6	44.5	44.0	44.5	43.8	43.7	43.7	43.9	43.7	43.9	44.1	44.5	45.5
IRL	34.4	35.5	37.0	38.6	39.5	38.6	38.1	38.3	38.9	35.8	35.4	35.8	36.0	36.0	36.7	34.5	34.5
I	30.7	31.7	34.1	35.9	35.0	34.8	35.3	36.1	36.6	38.3	38.8	39.9	42.1	43.5	40.7	40.9	42.9
L	46.3	47.8	49.2	51.8	50.1	46.6	43.9	44.4	42.9	42.0	43.2	42.5	41.7	43.8	44.2	43.8	43.0
NL	46.0	45.4	46.3	47.2	45.7	45.5	45.9	48.2	48.4	45.4	45.1	47.5	47.4	48.4	46.2	45.3	45.2
A	41.9	42.9	41.9	41.0	42.7	43.6	43.4	43.0	43.0	41.9	41.9	42.4	43.8	44.7	43.6	44.2	45.7
P	25.6	27.1	28.6	30.3	30.0	29.3	30.9	30.1	31.9	32.4	33.1	34.5	36.9	35.4	33.5	36.2	:
FIN	36.9	38.9	37.9	37.6	39.2	40.9	42.2	40.3	43.3	43.4	45.4	46.8	46.8	45.5	47.7	46.8	48.8
S	49.1	50.0	49.2	50.4	50.2	50.0	51.8	54.6	54.6	56.3	55.8	52.8	51.2	50.3	49.9	50.9	55.2
UK	36.1	38.2	38.7	38.4	38.8	38.5	37.8	37.1	36.9	36.7	37.0	36.4	35.1	34.1	34.8	36.1	35.9
EUR	38.7	39.2	39.8	40.3	40.5	40.6	40.5	41.0	40.8	40.9	40.7	41.1	41.6	41.9	41.6	42.0	42.4

The significance of the ratio of taxes and social contributions

The ratio of taxes and social contributions against the GDP (ratio) is often seen in public discussion as an indicator for government activity or for the individual tax burden on citizens or enterprises. This conclusion, however, only holds to a limited extent as important economic variables do not enter into this ratio. For example, the financing of government expenditure through an increase in public debt instead of taxes, lowers the ratio in the short run. With an assumed repayment of the debts, however, this increase in the ratio is only postponed.

A high ratio need not necessarily indicate a high (net) burden on enterprises or taxpayers. Statements concerning this can only be made if public expenditure is also taken into account. For the taxpayer, for example, it makes no financial difference whether support for families is granted through child benefit or through tax allowances. The tax ratio, however, is affected. In the latter case it would be lower than in the first mentioned case of child benefit. A similar reasoning applies to enterprises which either pay low taxes or receive subsidies in connection with the payment of high taxes.

Finally it is not justified to derive statements on government activity from tax ratios, because government intervention in the economic sphere need not necessarily be accountable in the budget.

The differences in the components of the level of the tax ratio and the level of social contributions are particularly large (tables 3, 4 and figures 7 and 9). In 1996, Denmark with 50.4 % has the highest tax ratio but with 1.7% the lowest social contribution ratio in the Union. Above the EU's average tax ratio of 27.2% are the Nordic countries, Belgium, Ireland, Italy, Luxembourg, Austria and the United Kingdom. Five countries (Belgium, Germany, France, the Netherlands and Austria) have a ratio of social contributions above the average of 15.3% (table 4).

Figure 7 sets these values in relation to the GDP per capita. A positive correlation seems to exist between the tax and social contribution ratio and the GDP per capita.

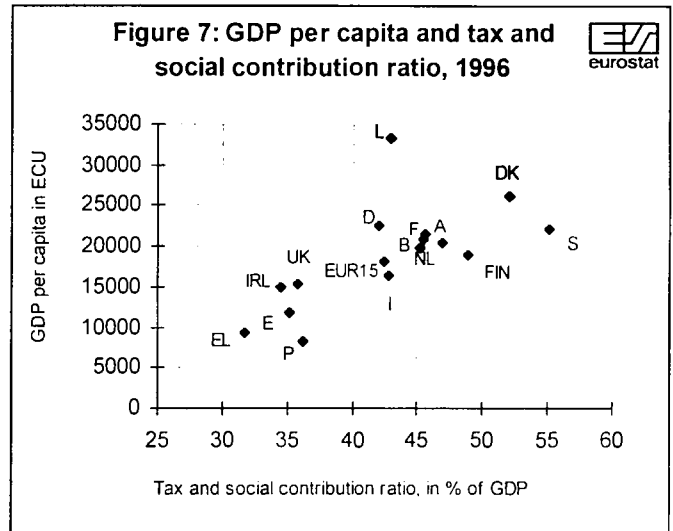
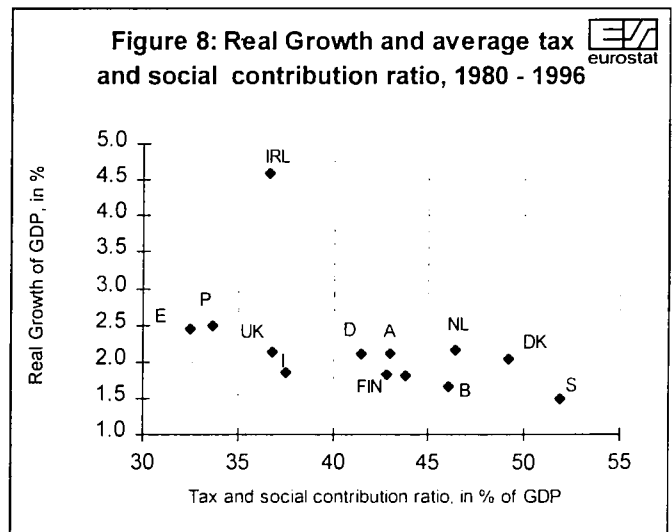
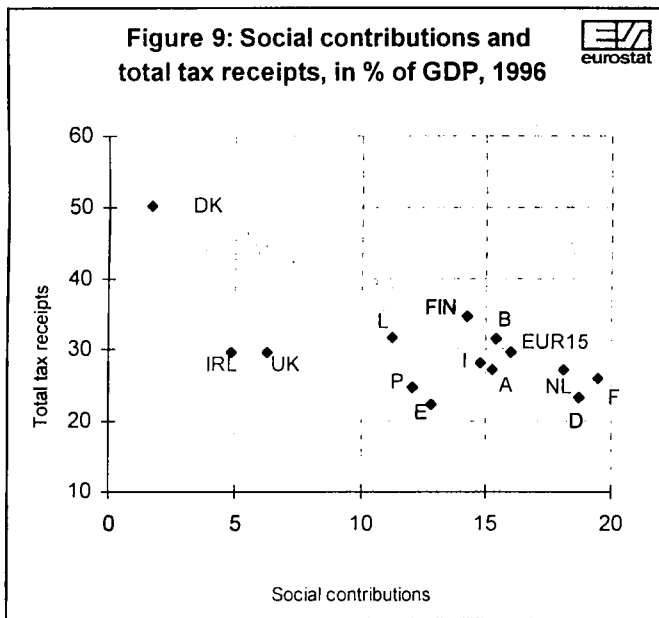


Figure 8 considers potential statistical correlations between real GDP growth and the average ratio of taxes and social contributions for the period 1980 to 1996. Here, a slight negative correlation of higher real growth and a relatively low tax and social contribution ratio seems to exist.



Change in the tax structure ...

Figure 10 describes the tax structure of the EU Member States in the year 1996. In the Union, about half of all the tax revenue is derived from taxes on income and wealth and a bit less than a quarter each from value added tax and other taxes linked to production and imports.



lower share by 'Employers' and an increasing share by 'Employees' and 'Others'.

The largest increase occurred in Italy (higher employer contributions amounting to 1.6 points), the strongest drop for Dutch 'Employees' social contributions (-0.9 points).

Box 2

Methodological Remarks

The data published here is partly based on preliminary data from the Member States' statistical offices. Common base is the European System of Integrated Economic Accounts (ESA). If not otherwise indicated, the values include taxes and contributions which are levied on behalf of the EU (import duties, VAT-part, agricultural levies etc.).

For the calculation of the EU average of 1996, the average 1996 increase of those countries providing data has been added to the 1995 average. This concerns missing data from 1995 or 1996 for Greece and Portugal. Due to incomplete data for Greece, the EUR15 average for the years before 1995 has been calculated as the average of the 14 Member States with available data, weighted with their portion in EU-GDP. As this country has a relatively low weight in the EU, this assumption has negligible effects on the EU values.

In most tables, '% of GDP' has been chosen as point of reference. With the exception of the calculation of the EU average, the influence of exchange rate developments has thereby been weakened. In particular the weight of countries with large exchange rate adjustments has changed, which leads to a different weighting of these countries' tax and social contribution ratios.

The figures for Germany include from 1991 onwards the former German Democratic Republic.

Conclusion

The 1996 ratio of taxes and social contributions in the EU reached a new peak of 42.4%, an increase of 0.4 percentage points compared with the previous year. No uniform trend appears, one half of the Member States show lower or constant levels, while in the other half the levels increased. Among these, Sweden recorded the highest ratio, which in 1995 was attributed to Denmark.

The increase is fairly equally spread between taxes and social contributions. The latter reached an EU-high of 15.3% of GDP, whereas the taxes with 27.2% of GDP approached the previous 1989 peak.

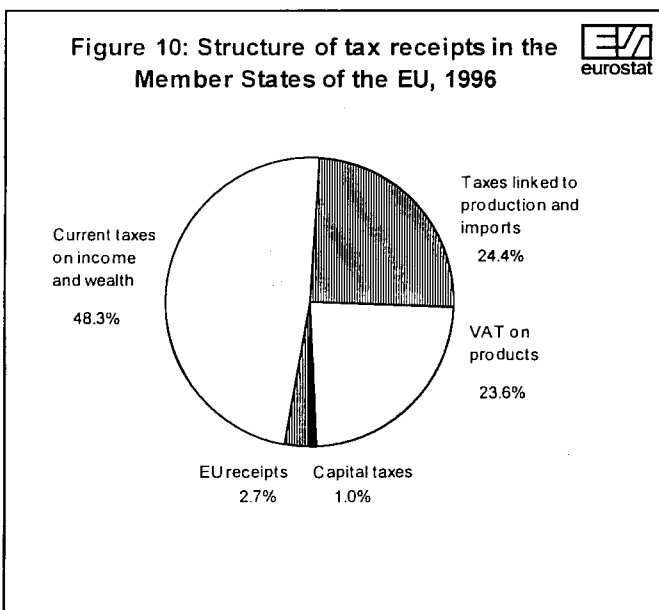


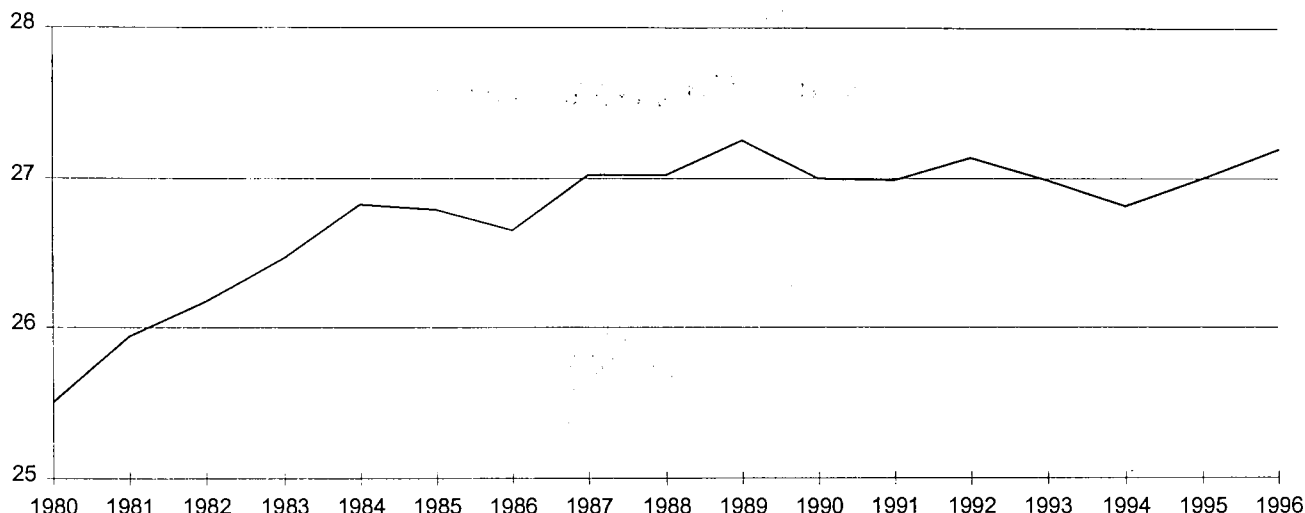
Table 3 gives information on the evolution of the most important taxes in the EU-Member States. In contrast to figure 10, putting individual tax data in relation to all tax receipts, table 3 points out the development of the taxes expressed in per cent of GDP.

In 1996, changes of one percent or more in GDP occurred in four cases: more than one percentage point rise in 'taxes on income and wealth' in Austria, Portugal and Finland and in 'taxes linked to production and imports' in Sweden. Taxes on income and wealth fell by almost one percentage point in Germany.

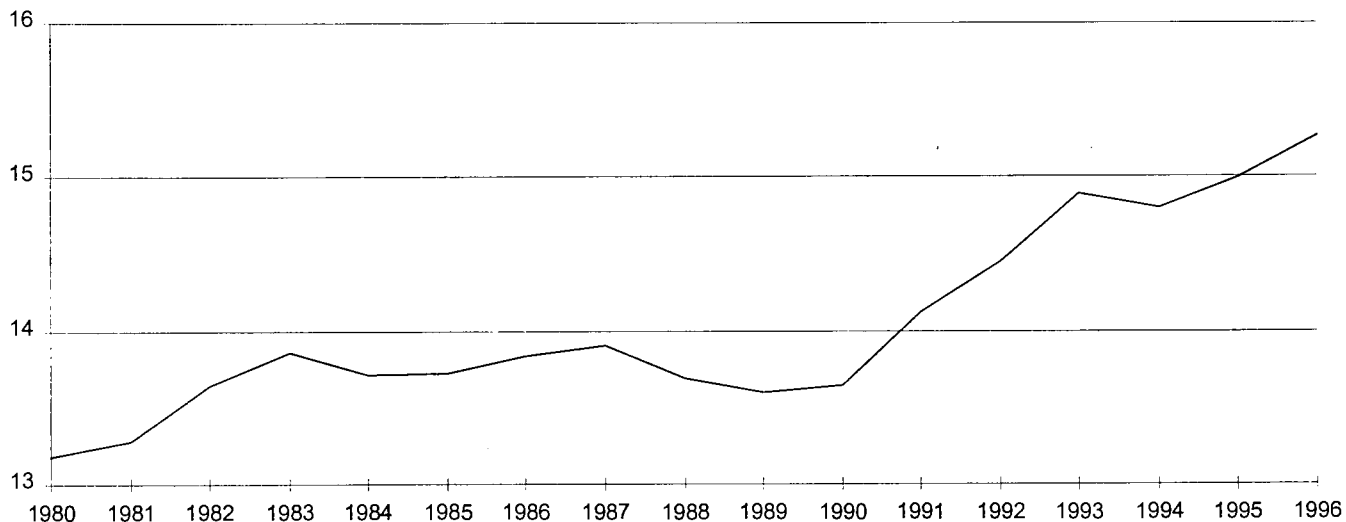
... and the structure of the social contributions

The development of the structure of social contributions is summarized in table 4 for the years 1985 and 1994-1996. The average ratio of the social contributions to the GDP for those 13 countries with detailed data increased in 1996 to 15.3% of GDP. Within this ratio the structure has changed with a

**Figure 4: GDP-proportions of taxes in the European Union,
1980 - 1996, in %**



**Figure 5: GDP-proportions of social contributions in the European Union,
1980 - 1996, in %**



... and social contributions

In 1996 social contributions rose by 0.3 percentage points to 15.3% of GDP, thereby exceeding the 1995 high of 15.0% of GDP (figure 5, table 1). This new peak of 1996 was preceded by an almost continuous growth since 1989, while the development in the period 1982-1989 was rather more stable.

Considering a longer-term perspective of the components of the rising tax and social contributions ratio, one finds primarily growing tax ratios between 1980 and 1989 and an increase in social contributions during the first half of the nineties.

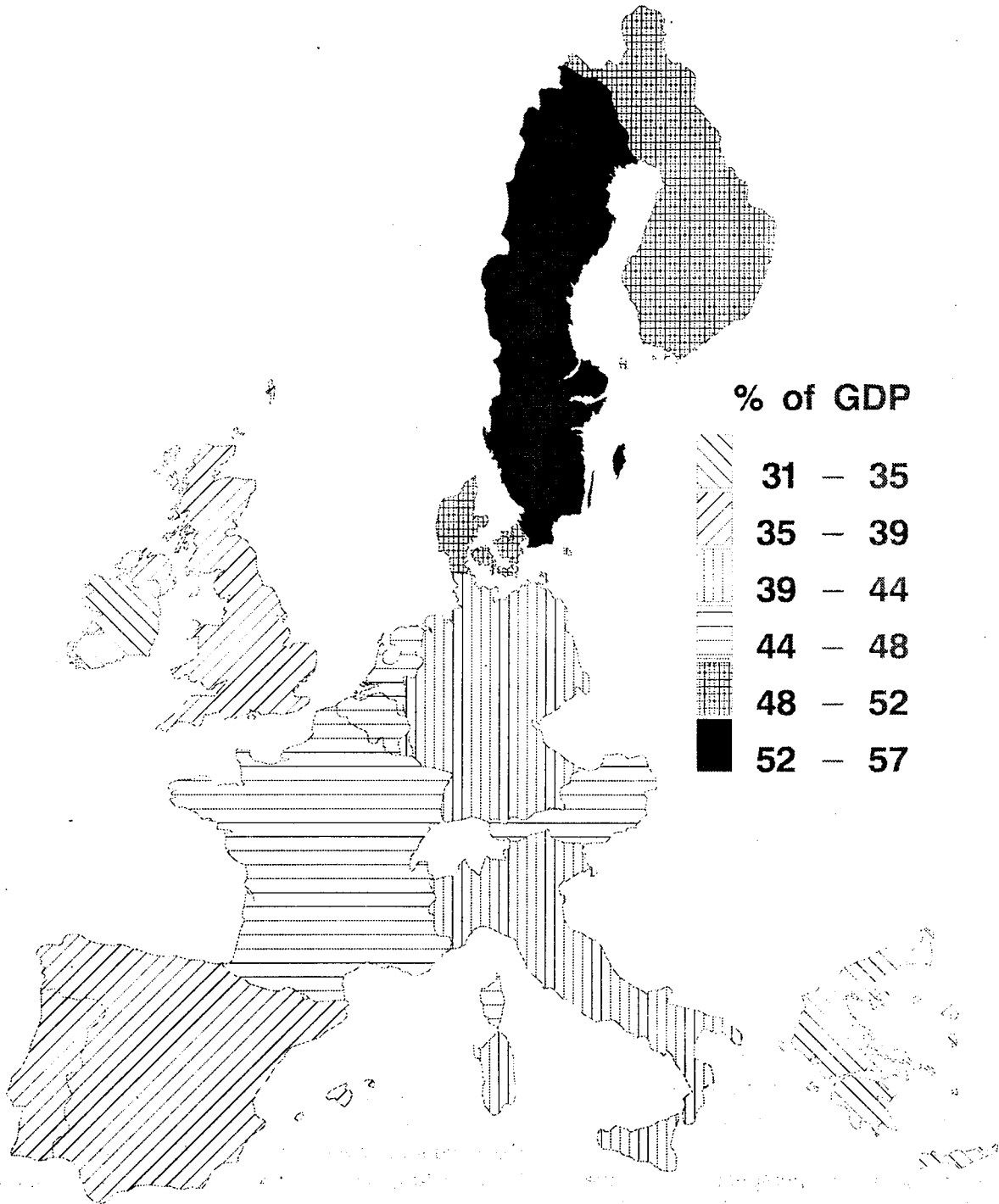
Considerable weight of a few Member States

The EU averages determined in this publication are calculated from the national tax and social contribution ratios weighted with the respective Member States' share of the EU's GDP.

Therefore the largest Member States have a dominant influence on the development of the EU average. Consequently, even a remarkable change in a small Member State will only have a minor effect on the EU average.

Figure 6 offers a comparison of the sizes of EU Member States and hence their weights for the average.

Taxes and social contributions in the European Union



EL 1994

P 1995

1996